

VZCZCXRO7814
OO RUEHGH
DE RUEHCN #0017/01 0260857
ZNR UUUUU ZZH
O 260857Z JAN 10
FM AMCONSUL CHENGDU
TO RUEHC/SECSTATE WASHDC IMMEDIATE 3702
INFO RUCPDO/USDOC WASHDC IMMEDIATE 0048
RUEHOO/CHINA POSTS COLLECTIVE
RUEHCN/AMCONSUL CHENGDU 4425

UNCLAS SECTION 01 OF 03 CHENGDU 000017

SENSITIVE
SIPDIS

DEPT FOR EAP/CM

E.O. 12958: N/A

TAGS: [ECON](#) [EINV](#) [ELTN](#) [ETRD](#) [PGOV](#) [SENV](#) [CH](#)

SUBJECT: CHANG'AN HOPES TO BUILD ENVIRONMENTALLY FRIENDLY CAR WITH
PARTNER FORD, CRACK U.S. MARKET WITH MINI-CARS

REF: 09 CHENGDU 166

CHENGDU 00000017 001.2 OF 003

11. (U) This message contains company proprietary information.
Not for Internet distribution.

12. (SBU) Summary. Ford's principal partner in China, Chongqing Chang'an, recently became the PRC's third-largest automaker after purchasing the auto assets of another state-owned enterprise. Some analysts believe Chang'an's purchase could set off a series of mergers and acquisitions that would help consolidate China's highly fragmented car industry into Beijing's hoped-for four auto giants, including Chang'an. In 2009, Chang'an enjoyed more than a 10 percent share of China's 13-million-unit auto market -- the world's largest. Twenty percent of Chang'an's production came from joint ventures with Ford, Mazda, and Suzuki; Chang'an's third auto plant with Ford will be completed in 2011. Chang'an is negotiating with Ford to jointly develop a "new energy" vehicle, and with U.S. firm Honeywell to produce fuel efficient turbochargers for small-displacement engines. Chang'an also hopes Ford will help it crack a promising emerging market in the United States for mini-cars -- a Chang'an strength because of its link-up with Suzuki. End Summary.

China's Car Market:

World's Largest and Growing; Chang'an Has 10 percent Share

13. (SBU) China's annual car production of 13 million in 2009 was the world highest, and will "soon" reach 16 million, Chongqing Chang'an Vice Chairman Wang Chongsheng recently told Consul General. China's potential as a car market is huge because as many as 150 million Chinese now have the financial means to purchase a car, he explained.

14. (SBU) Chang'an is China's third largest automaker, after Shanghai Automotive and FAW-Volkswagen Automotive, Wang said. Chang'an's 2009 output -- almost 1.4 million cars -- was its highest ever, accounting for over 10 percent of China's total production. Chang'an's sales were significantly aided by the Chinese government's economic stimulus package, which included a 50 percent reduction in sales taxes on vehicles, with tax-free

purchases of models in rural areas. According to government officials at an economic conference in late 2009, these sales incentives will continue into 2010, he said. Chongqing Chang'an was set up in 1996, and is a listed company on the Shanghai Stock Exchange. Its primary shareholder, the Beijing-based China Chang'an Group (Zhongguo Bingqi Zhuangbei Jituan Gongsi), is a state-owned enterprise that owns 45.27 percent of shares, Wang noted.

Chang'an's Foreign Joint Ventures: Cooperation

with Ford on Third Auto Plant, "New Energy" Car

----- --

¶5. (SBU) Twenty percent of Chang'an's production comes from its joint ventures with Ford, Mazda, and Suzuki, Wang said. From January-November 2009, these joint ventures produced 420,000 vehicles, earning 18 billion RMB (2.64 billion USD) on sales of 45.6 billion RMB (6.69 billion USD). The Chang'an-Ford joint venture was set up in 2001 and was later restructured as the Chang'an-Ford-Mazda company, with Chang'an owning 50 percent of shares, Ford 35 percent, and Mazda 15 percent. Chang'an-Ford-Mazda's January-November 2009 unit sales and profits were, respectively, 300,000 cars and 2.5 billion RMB (367 million USD). Chang'an set up its joint venture with Suzuki in 1993 and has profitably produced mini-cars since production started in 1995. (Note: Chang'an Ford told the press recently that its full-year 2009 production was 316,139 cars, up 54.5 percent over 2008. End Note.)

CHENGDU 00000017 002.2 OF 003

¶6. (SBU) Construction of a third Chang'an-Ford plant will be completed in 2011 at a cost of 380 million USD, Wang said. Phase one will boost annual capacity by 200,000; phase two will increase it by 100,000 more. Ford will not have to contribute additional capital for the new plant's construction, relying instead on retained earnings. The Chongqing Government, which receives 5 billion RMB (733 million USD) in taxes annually from Chang'an, has offered 1,000 mu (66 hectares) of free land for the new plant's construction, as well as a reduction in income taxes for 10 years. (Note: Recent press reports have listed the cost of the new Chang'an-Ford plant at 490 million USD. End Note.)

¶7. (SBU) Ford is Chang'an's top strategic partner, and the two will be working together on a "new energy" car, which Chang'an hopes will be produced at Chang'an-Ford's Chongqing factory with "full support" from the central and Chongqing governments. Chang'an seeks Ford's assistance with the "new energy" car's design and technology, and hopes to establish a joint R&D center with Ford in Detroit for this purpose. (Note: Wang did not clarify whether the "new energy" car would be a hybrid gas-electric, an all-electric vehicle, or potentially an alternative fuel vehicle. End Note.)

Negotiation Deal with U.S Firm Honeywell for Turbochargers

¶8. (SBU) Chang'an has been negotiating with another U.S. firm, Honeywell, about a cooperation agreement to help Chang'an produce turbochargers for 0.8 - 1.5 liter engines used in

mini-cars. These turbochargers can provide 10 percent gas savings, and a 30 percent boost in power. Chang'an hopes to conclude the deal soon and start construction of production facilities for turbochargers in 2010.

Chang'an to Be One of Four Chinese Car "Champions" After
Industry Restructuring; Purchase of AVIC Car Assets is Step One

¶9. (SBU) China's State Council issued in January 2009 a document "Planning for the Restructuring and Revitalization of China's Automobile Industry," Wang explained. At present, there are 108 "automobile companies" in China. The State Council hopes to create 10-15 large automobile groups after restructuring, with four lead companies -- Chang'an, Shanghai, FAW-Volkswagen, and Dongfeng -- absorbing smaller auto makers. The State Council hopes that much of this consolidation process can occur over the next three years. One important step in this regard was Chang'an's November 1, 2009 deal with Aviation Industries of China (AVIC), under which Chang'an will receive 77 percent of shares in AVIC auto plants -- including those making Hafei cars and Chenghe cars and minivans -- bringing its total to 22 plants. In return, AVIC will take a 23 percent share in Chang'an, Wang explained.

¶10. (U) Note: Press reports indicate that AVIC agreed to transfer its auto assets, valued at 17 billion RMB (2.49 billion USD), to Chongqing Chang'an's parent company in exchange for a 23 percent stake in Chang'an, after which Chang'an's annual production capacity would increase to 2.2 million units. One western auto analyst quoted in the press called the Chang'an-AVIC deal a "significant development in China's auto industry" that "might also signal a quickening of the pace of consolidation of the ... highly fragmented automotive industry."
End Note.

Chang'an: Foreign Plants; R&D Centers;
Ambitions to Sell Mini-cars in U.S.

CHENGDU 00000017 003.2 OF 003

¶11. (SBU) Chongqing Chang'an has assembly plants in Malaysia, Vietnam, Iran, Egypt, and Mexico, but currently principally produces cars in China for the domestic market, Wang said. In 2009, it exported 35,000 cars, 4,000 of them to the United States, "where there is a shortage of mini-cars, especially on farms and golf courses."

¶12. (SBU) To develop new cars, Chang'an invests annually about 2 billion RMB (293 million USD), Wang stated. The firm already has R&D centers in four cities in three countries. It is also considering establishing R&D centers in Italy, where design of car exteriors is strong, and in Japan, which is strong in designing auto interiors.

¶13. (SBU) In the future, China will not only be a huge car market, but also an important car exporter, Wang stressed.

Chang'an is in discussions with Ford on how to boost mini-car exports to the United States from its base in Chongqing. At one point, U.S. car producers had a chance to develop the mini-car market in China, Wang asserted, but failed to do so. Chang'an's mini-cars already meet international safety, emissions, and noise standards, he noted, at the same time acknowledging that quality and safety levels would need to be increased further before Americans could be enticed to buy Chang'an's mini-cars.

BROWN